



Claire McCaskill

Missouri State Auditor

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September 2005

City of Rock Hill, Missouri

Year Ended March 31, 2004



Office Of  
Missouri State Auditor  
Claire McCaskill

September 2005

The following problems were discovered as a result of an audit conducted by our office of the City of Rock Hill, Missouri.

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The City of Rock Hill's financial condition is contingent upon the sale of the city center property and the successful completion of the Northwest/Southwest Manchester and McKnight (NW/SW) redevelopment project.

In the summer of 2002, the city proposed building a new city center complex. The city could not locate documentation of the requests for proposals (RFP) for a project manager or the analysis documenting how and why the architect hired was selected. Contracts for these services were signed in February and April of 2003.

The Board requested former Mayor Salamone to perform some preliminary analysis on the feasibility of the city center project. Although his review indicated the project was feasible, the Board requested quotes for two outside firms to conduct separate real estate and recreational feasibility studies in July 2003. By the time these contracts were signed in October 2003, the city had already committed to purchasing the land, which eventually cost \$1.75 million, and had spent approximately \$307,000 for other services. The Board eventually terminated the city center project, but not before spending an additional \$412,300. In addition, the city also incurred costs associated with the purchase of the land and financing totaling \$279,800. Through the termination of the city center project, it is estimated that the city has spent approximately \$2.7 million. With the recently negotiated sale of the property at a price of \$2 million, there is approximately \$700,000 in city costs that will not be fully recovered with this sale.

The city indicated RFPs were requested for the NW/SW redevelopment project (including the Sayer and City Hall properties) in December 2002, but that no responses were received. The planning board then heard presentations from three firms and made a recommendation to the Board of Aldermen. After a developer had been selected, the city determined there was no documentation that it had formally advertised for proposals. In September 2004, the board approved advertising of a new RFP. Due to the restrictive nature of the RFP, including a \$10,000 non-refundable deposit and a due date of 30 days, the city only received one proposal, from the same developer with whom they had already been working. The city has recently negotiated for the sale of the combined Sayer and City Hall properties to the developer for \$3.6 million, however the city did not have a recent appraisal for the City Hall property.

(over)

YELLOW SHEET

Former Mayor Salamone received commissions totaling \$33,600 from the retirement plan investment manager while acting as the pension plan "selling agent", which appears to be a violation of state statutes regarding related parties. The city retained special counsel to investigate this matter and, as a result, a lawsuit has been filed against the parties involved.

Former Mayor Salamone was elected in April 2002 to a four year term and received a monthly salary of \$275 for his official duties. Additional compensation granted him totaling \$3,637 was unsupported by state law, including \$937 for time spent in court hearings and depositions on behalf of the city, which appear to be an extension of his official duties and would, therefore, not require additional compensation. Also, the city did not have a written contract with former Mayor Salamone for his additional duties.

Several expenditures were not adequately supported by vendor invoices. The city did not enter into contracts or could not locate contracts for services provided for some expenditures, including: street repair, \$209,011 and the City Attorney's legal fees, \$243,311. Because the city has not clearly described the relationship they intended to create with some individuals providing services through a written contract, it is not clear why these individuals were considered independent contractors or if they actually met the IRS criteria. Additionally, the city either did not always solicit bids/proposals in compliance with their bidding policy or did not always retain bids/proposals, discussed in board meeting minutes, documenting their compliance with the policy.

The city held dinners and purchased gifts for employees that did not appear to be prudent uses of public funds, including: an employee farewell dinner, an appreciation dinner for 35 employees and officials, and an employee Christmas party where each employee received a \$50 gift certificate.

The city does not have a formal policy regarding credit card usage. Several expenditures for local meals were incurred, but the invoices did not document who attended and why a meal was necessary.

Some meeting minutes were not retained and others did not include sufficient detail of matters discussed and action taken. In addition, closed meetings were not always adequately documented or conducted in accordance with state law.

Also included in the report are recommendations related to payroll and personnel, expenditures, ordinances, financial reporting, budgets, dispatch services, cellular phones, fund accounting, and capital asset records.

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CITY OF ROCK HILL, MISSOURI

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Rock Hill, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Rock Hill, Missouri. The city engaged Hochschild, Bloom & Company, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended March 31, 2004. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended March 31, 2004. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Rock Hill, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

March 10, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS



CITY OF ROCK HILL  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1. City Financial Position and Development Projects</b>
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The city's financial condition is contingent upon the sale of the city center property and the successful completion of the Northwest/Southwest Manchester and McKnight (NW/SW) redevelopment project. The city's cash balance and financial position has significantly decreased during fiscal years 2004 and 2005 as a result of monies spent on the acquisition of property and the planning and design of these projects. The city center project has cost the city approximately \$2.7 million and the redevelopment project total cost through January 2005 was approximately \$2.5 million. To finance the projects the city issued over \$4.2 million in COPS.

A. In June 2002, the Board began to develop a comprehensive city development plan which was to be the blueprint for restoration, reconstruction, and new development projects for the next 10-15 years. As a result, in the summer of 2002, the Board began discussing the acquisition of the property located at 2630 South McKnight (the city center property). The city proposed building a new city center complex on the property that would house the administrative and public safety departments as well as provide recreational services to the citizens. Several concerns were noted regarding this project.

1. The city indicated it issued requests for proposals (RFP) for a project manager, but could not locate this documentation. The city signed a contract for this service in February 2003. In addition, the city also solicited RFPs for an architect, but could not locate their analysis documenting how and why the architect hired was selected. A contract for this service was also signed in April 2003. Competitive requests for proposals are necessary to provide a framework for the economical management of city resources and help assure the city that it receives fair value by contracting with the lowest and best firm. A competitive selection process ensures all interested parties are given an equal opportunity to participate in city business.
2. The Board requested former Mayor Salamone to perform some preliminary analysis on the feasibility of the project. Although his review indicated the project was feasible, the Board questioned the review and in July 2003, requested quotes for two outside firms to conduct separate real estate and recreational feasibility studies costing \$2,500 and \$15,740, respectively. The contracts for these studies were signed in October 2003. By that time, the city had already committed to purchasing the land in September 2003, which eventually cost \$1.75 million, and had spent approximately \$307,000 for other services (\$150,100 for project manager

services, \$103,700 for planning and design, \$39,200 for legal fees, and \$14,000 for miscellaneous costs such as asbestos/lead review, appraisals, and surveys).

In January 2004, the city received the recreational feasibility study which indicated doubt about the local market and financial stability of such a center. Additional analysis prepared by former Mayor Salamone disagreed with this study because it showed considerable disparity from his former analysis, which indicated the project was in fact feasible. However, the Board eventually terminated the city center project.

However, before terminating the project, the city spent an additional \$412,300 (\$71,400 for project manager services, \$283,100 for planning and design, \$39,500 for legal fees, and \$18,300 for miscellaneous costs such as appraisals, asbestos/lead review, and demolition of the old building). In addition to these costs, the city also incurred costs associated with the purchase of the land and the issuance of the COPS including underwriting fees of \$23,700, pre-paid interest of \$234,100, and subsequent interest payments of approximately \$22,000.

Through the termination of the city center project, it is estimated that the city has spent approximately \$2.7 million. The city has recently negotiated for the sale of the property at the price of \$2 million, therefore, approximately \$700,000 in city costs related to this property will not be fully recovered with this sale.

- B. In June 2002, a local business announced its decision to close its Rock Hill production plant located next to city hall (the Sayer property). In conjunction with the development of the city's comprehensive development plan, the Board concluded it had the opportunity to temporarily control this real estate which could be included in the city's redevelopment plans and later resold. The city purchased the Sayer property in August 2003 at a cost of \$2.4 million. This property, along with the current city hall location, then became part of the city's redevelopment plans and were included in the proposed NW/SW redevelopment project. The following concerns were noted regarding this project.
  - 1. The city indicated RFPs were requested for the NW/SW redevelopment project in December 2002. No responses were received and the Board authorized former Mayor Salamone to find several developers interested in this project. As a result, the planning board heard presentations from three firms, evaluated the proposals, and then made a recommendation to the Board of Aldermen. The Board then chose their preferred developer and began negotiating a development deal for this property. However, the city later determined that it had no documentation that it had formally advertised for proposals for the project. Therefore, in September 2004, the Board approved the advertising of a new RFP. However, the new RFP

may have been unnecessarily restrictive by including a \$10,000 deposit that would not be paid back and a due date of 30 days. These restrictions may have had the effect of limiting potential developers. As a result, the city only received one proposal which was from the developer they had already been working with for the last year. City officials indicated the purpose of the non-refundable deposit was to limit responses to only serious proposals; however, the city has recently changed this policy and has now began requesting refundable deposits on the city's other proposed development projects.

Competitive requests for proposals are necessary to provide a framework for the economical management of city resources and help assure the city that it receives fair value by contracting with the lowest and best firm. A competitive selection process ensures all interested parties are given an equal opportunity to participate in city business.

2. In July 2002, the city solicited and received proposals for appraisal services for the Sayer property, the city hall property, and the combined redevelopment, but the city could not find documentation of the actual completed appraisals. The city has recently negotiated for the sale of the combined properties to the developer for \$3.6 million. This includes the recovery of the \$2.4 million purchase price of the Sayer property and an estimated value of the city hall location of approximately \$1.2 million. While the city hall property was actually appraised in 1998 for \$700,000, this appraisal is now seven years old. Without current documented independent appraisals, the city has no assurance the price paid and received for these properties was reasonable or represented a fair value for the properties.

- C. The city did not competitively select the underwriter for the COPS issued to finance the purchase of the properties. In addition, the COPS were not competitively sold. COPS are a method of financing a capital project whereby a tax-exempt corporation, sells interests (certificates of participation) in the capital project, leases the project to a local government, and repays the certificates with the lease payments. After the certificates have been repaid, the local government typically has the option to purchase at a minimal amount the capital project it has been leasing. COPS are not required to be approved by the city voters. The COPS issued by the city of Rock Hill are held by a local bank and are listed below:

<u>Date Issued</u>	<u>Amount</u>	<u>Purpose</u>
August 2003	\$2.2 million	Acquiring the Sayer property
September 2003	\$1.6 million	Acquiring/improving the city center property
October 2003	\$326,750	To pay additional costs incurred while acquiring and improving the properties
September 2004	\$150,000	Amending the October 2003 COPS to make the final payment on the city center property.

Competitive requests for proposals are necessary to provide a framework for the economical management of city resources and help assure the city that it receives fair value by contracting with the lowest and best firm. A competitive selection process ensures all interested parties are given an equal opportunity to participate in city business. In addition, two previous SAO reports found that competitive sales of similar instruments, general obligation bonds, usually resulted in lower overall financing costs.

In addition to spending approximately \$700,000 in cash on these projects, which has significantly decreased the city's cash reserves, the city has incurred debt of an additional \$4,276,750. This debt represents a significant liability to the city as the payment for the principal component of the COPS issued was due in March 2005. As noted above, the city is negotiating the sale of the city center property and has agreed to a closing date of September 2, 2005, for the sale of the NW/SW redevelopment project land. In addition, the city has negotiated an extension on the COPS through September 15, 2005.

In order to improve its financial condition, the board should carefully proceed with the completion of these deals and retire the associated debt. In addition, considering the city's handling of these projects, the board should consider adopting formal procedures for the acquisition and redevelopment of land. These procedures should address issues such as the proper issuance of RFPs, the timely procurement of feasibility studies, and the appraisal of land purchased and sold to ensure the city and its resources are not exposed to unnecessary risks from future projects.

**WE RECOMMEND** the Board of Aldermen:

A&B. Closely monitor the city's financial condition and the progress of these deals to ensure the associated debt is retired as scheduled. In addition, the Board should establish formal land acquisition and redevelopment procedures addressing the timely issuance of RFPs, feasibility study requests, and the appraisal of all land purchased or sold. Also, the Board of Aldermen should ensure supporting documentation is maintained to support all transactions related to these projects, including services solicited and provided.

- C. Ensure proposals are solicited for professional services.

### **AUDITEE'S RESPONSE**

*A & B. As per recommendations from the State Auditor, the City of Rock Hill Board of Aldermen will continue to carefully and consistently monitor the City's financial status. All transactions associated with acquired properties have been and will be closely followed.*

*The City of Rock Hill proactively took steps to ensure its viability through an overall plan of sensible development. The Board actions were determined to be responsible risks that any business or city would take, to support growth into the future. The Board has contracts to sell the Gerber and Quebecor/Sayers sites for more than the purchase prices. After the contract closings, developers will begin immediately to develop those sites, which will significantly add to the city's tax base. These projects should add more than \$100 million in new development and more than \$1 million a year to city revenue. This would not have been possible had the city not taken these measures. The Board's actions were both forward looking and necessary to make the redevelopment possible. The City of Rock Hill took the steps necessary to guide its future rather than let the future happen to it.*

*The properties located at 2630 South McKnight (Gerber) and 9610 Manchester Road (Quebecor/Sayers) were purchased after numerous study sessions, public surveys, public hearings and committee reviews as part of the new comprehensive plan for the city. The Planning Board interacted with citizens weekly for a period of eight months, to create a new comprehensive plan. The Planning Board consisted of the city's Economic Development Commission, Planning and Zoning Commission and Board of Aldermen. They were assisted by Richard Shearer, an Urban Planner with Shearer & Associates. During these public and interactive discussions, areas were targeted for redevelopment. Types of desirable development were defined and specific goals were outlined. The Board of Aldermen's actions following the Planning Board meetings were derived from the decisions, plans and goals set forth in the Planning Board meetings.*

*The Board received appraisals for the properties included in this section. Mayor Salamone and a majority of the Board of Aldermen decided to get a basic building design along with projected programming for the new City Center before requesting a feasibility study. They thought it would be best to know the space allocations and uses of the building because that would have a significant impact on the feasibility study. After the professional feasibility studies were conducted the Board of Aldermen felt it was in the best interest to discontinue the City Center project, despite decisions made by the Planning Board. After this decision and the departure of Mayor Salamone, there were numerous invoices still coming in regarding expenses for the City Center project of which the Board of Aldermen was unaware. The city agrees that these expenses were premature for the status of the City Center project and unnecessary. The Board has requested and received a preliminary drawing of a new city hall utilizing information gathered from this previous project.*

*When Joan Boyer was the City Administrator, there was a large turnover in city hall employees. Most of the new hires did not have government experience. This had a negative impact on the ability to organize and locate paperwork. The city recognizes the importance of maintaining clear and complete documentation to support transactions related to current and future projects and related services. The city is actively seeking a new city administrator whose first priority will be to ensure that internal procedures are in order.*

*It was the job of Joan Boyer, former City Administrator, to execute the proper procedures for advertising the RFP in the newspapers. It was later discovered the advertising procedure was not carried out. After this discovery, the Board of Aldermen advertised the RFP so the Northwest/Southwest development project would move forward. The \$10,000 non-refundable deposit is not unnecessarily restrictive on a project involving over almost \$100 million of development.*

*The city did not believe an appraisal for city hall was necessary because an appraisal had been done in 1998. The city considered several factors. 1. An appraisal was made of the Quebecor/Sayers site immediately adjacent and its determination of land value. 2. Even with the sale of the city hall property, the city has retained the use of land for two cell towers which will continue to produce substantial revenue for the city. 3. The Board believed it was extremely important to keep the sale price of the city hall property at a reasonable level. The reason for this was to allow more money to be applied towards the purchase of residents' homes in the redevelopment buyout.*

- C. *The City of Rock Hill recognizes the value of soliciting proposals for professional services. The city is committed to this and has taken action. The only exceptions are for situations where time or confidentiality is a concern and the use of limited professional contracts is approved by the Board.*

*To illustrate the value of the business decisions made by the Board, the city has received contracts for approximately \$6,000,000 for the sale of the aforementioned properties to offset the \$4,276,750 in debt that was incurred. This will insure the successful progress of the new \$100 million development.*

#### **Response from Robert Salamone**

- A.2. *Assuming the responsibilities of City Administrator, uncompensated during the period of September 1, 2002 through January 3, 2003, as a direct assignment of the Board of Aldermen, with no ordinance or resolution recommended by the current City Attorney, Kenneth Heinz, I began the process of researching, evaluating, and analyzing the financial, economic, and market potential of a new City Center complex in Rock Hill. This was a very thorough, in-depth, detailed 12 month process which compared our proposed project against seven (7) like complexes located throughout St. Louis and St. Charles counties, using information collected and distributed through the St. Louis County Parks and Recreation Department, approximately 20 interviews held with local and regional municipal park departments, seven (7) commercial real estate firms, and several brokerage firms and local banks. A financial feasibility report was prepared with*

*the assistance of the current Construction Manager and Architect and presented to the Board of Alderman and residents in open meeting. The first version of the feasibility study and recommended approach to creating a new City Center involved the construction of a single structure that would house the police department, fire department, administrative services, and provide residents with access to a full size gymnasium and workout area. To generate additional long term revenue for the project, I recommended that 18,000 square feet of commercial office space be allocated which would generate nearly \$250,000 to \$360,000 per year based on a \$20 per square foot charge to the tenant. (This concept was supported by the feasibility study furnished by Coldwell Banker which cost the city \$2,500) The total cost of the project at that time was \$7.5 million (land cost was not included as the city was still involved with condemnation proceedings at the time). Immediately following the presentation to the Board, a closed session was held wherein Alderman Michael Conran and Alderman Matthew Knuckles demanded the inclusion of a swimming pool and running track. This closed session was held with the City Attorney (Kenneth Heinz) present. Once again, I was asked to perform additional research to determine the additional cost involved in adding these amenities. The second feasibility study included these amenities with an additional cost of \$2,350,000 added to the project. Once again, this meeting was held in closed session with the City Attorney present. At no time was the public made aware of either these conversations nor the position of each of the Board members throughout this process. It should also be noted that Alderman Sheri McCann was involved in the discussions and maintained strong support for the project up to the issuance of the feasibility study provided by the outside agency which cost the city an additional \$15,740. It was the findings of the outside firm which caused project costs to soar above the \$11.5 million mark as they recommended the inclusion of a slide and other amenities which required a complete redesign of the entire project. (This can be supported by Greg Garner of Archimages and Michael Barron of BOA Construction Co.)*

*The city offered Rock Hill Quarries \$1 million for the purchase of the McKnight property. Rock Hill Quarries refused to sell the property and the Board of Alderman, based on the recommendation of the City Attorney, decided to pursue condemnation of the property. This very long and drawn out process resulted in an increase of nearly \$600,000 for the property. It was believed that the city could recoup the premium paid for the property over a period of ten (10) years. I was dismayed to learn that the city decided not to pursue the right of appeal and settled for a purchase price of \$1.75 million.*

*In my final analysis and response to the outside feasibility study, I recommended to the Board that the project be continued, as we had a significant investment in the project at that time, and that specifically targeted modifications should be initiated to reduce overall project costs. The Board decided to abruptly end the project with no explanation.*

*Throughout the process, all Board members were unanimously supportive of the project concept and approach. Through a series of cost escalations and increased vocal opposition from a small group of residents, the Board began initiating a series of unnecessary and very costly changes to the architectural plans and construction designs*

*which drove overall project costs higher. They refused to listen to the advice of their Construction Manager and Architect to cease making these changes and move forward on the project or end the project completely. It should also be noted that the City Attorney made no move to halt the process or advise the Board as to the appropriateness of their actions, yet, he continued to receive excessive fees for his advice and council throughout the process.*

- C. *The City Attorney never advised me or the Board of Alderman that a bidding process was necessary, nor did he ever indicate that the COPS should be sold on a competitive basis. The Board approved Royal Bank as the source for funding and the City Attorney drew up all of the paperwork.*

<b>2. Related Party Transactions</b>
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Former Mayor Salamone received commissions from the city's retirement plan for acting as the plan "selling agent". In addition, the city hired the sister of a city employee and a relative of an alderman was paid by the city for distributing city flyers.

- A. Former Mayor Salamone received commissions from the retirement plan investment manager while acting as the pension plan "selling agent". The compensation he received began in February 2004 and continued through September 2004, exceeding \$33,600.

Section 105.454, RSMo, prohibits an employee or official, serving in an executive or administrative capacity of any political subdivision, from performing any service for the city for more than \$500 per transaction or \$1,500 per year unless the transaction is made by competitive bidding and the lowest bid is accepted. To avoid the appearance of a conflict of interest, city officials should not participate in decisions that effect related parties.

The city retained special counsel to investigate this matter and, as a result, a lawsuit has been filed against the parties involved and the city has requested that the investment manager cease all commissions and compensation from the pension fund.

- B. In July 2003, the city hired an independent contractor (see MAR 4) who was the sister of a current employee. In addition, in March 2004, the city paid \$400 to a board member's relative to deliver city flyers. These situations appear to be in violation of the city's old policy concerning employment of relatives in force during this time. This policy stated that the city will not appoint, hire, or otherwise employ or contract with a relative of any elected or appointed official or any employee of the city. Because the city was not in compliance with their policy, a new employment of relatives policy was approved by the Board. The new policy, adopted October 19, 2004, indicates that the city will not hire a family member of a board member, the city administrator or a city employee



within the same department. While the city may be in compliance with the new policy, serious consequences result from the hiring of a relative. The Board should ensure discussions and decisions concerning situations where potential conflicts of interest exist be completely documented so that the public has assurance that no city official has benefited improperly.

**WE RECOMMEND** the Board of Aldermen resolve the matter of the pension fund commissions. In addition, in the future, the city should avoid situations that represent actual conflicts of interest or the appearance of conflicts of interest.

### **AUDITEE'S RESPONSE**

*The city does not condone related party transactions.*

*The City of Rock Hill had already initiated action to resolve the matter of pension fund commissions and avoid situations of conflict of interest. The Board of Aldermen was not aware that Mayor Salamone was to receive a commission from Nationwide Insurance Company as he represented that he was not the selling agent. Mayor Salamone stated in a Board of Aldermen's open session that he was not receiving any sales commission or other payment for his work in the pension plan negotiations. Since no payment was made directly from city funds, the commission went undetected until Mayor Salamone resigned and a staff member started questioning the costs of services for the pension plans. By working with the City Attorney, the staff determined that Mayor Salamone had indeed received a commission. This information was taken to the Board of Aldermen at the next meeting. Because of potential legal issues and a lawsuit with a former employee, Joan Boyer, this situation was handled in closed session. After a search for a law firm with experience in this area, the Board authorized the law firm of Polsinelli, Shalton, Welte, Suelthaus, P.C., because of their municipal and pension experience, to review the matter. The Board, upon discovery, requested that all commission payments by Nationwide be stopped immediately and remain that way until further notice. A copy of the report was forwarded to the city's Prosecuting Attorney for his consideration of any actions that he believed would be appropriate. A copy of the report has also been provided to the State Auditor. The Acting City Administrator will meet with the State Attorney General's office. In April 2005, the city filed suit against Mr. Salamone and others in order to obtain the sales commission which would be deposited into the pension fund. The city has changed the trustee and removed all responsible persons from any role in the plans. The Board will make whatever other changes are necessary to insure the plan is run properly both for the city's interest and the interest of the employees who are covered by the pension plan. The city initiated its review of these actions during the second half of 2004 prior to the initiation of the state audit. This information was given to the State Auditor.*

*In March 2004, Mayor Salamone had information that he wanted delivered to every home in Rock Hill quickly. The relative of an alderman was available to make deliveries and the Mayor authorized using her. This was not campaign material for any person running for office. Utilizing this person for such temporary work was not considered a violation of the nepotism policy that was in place at that time and the way it had been interpreted.*

*Current Mayor Morgan has established guidelines that require a higher level of avoiding any appearance or conflict of interest.*

*The city has approved a new nepotism policy which specifically states no relation of an elected official and/or the City Administrator may work for the city.*

**Response from Robert Salamone**

- A. *The commissions earned from the Defined Benefit Plan and Defined Contribution Plan did total approximately \$33,000, of which \$3,000 was held by my Broker/Dealer, and initial compensation was received on March 30, 2004. At the time compensation was received, I was not "Trustee" as I was removed as Trustee on February 2, 2003 and Mr. Donald Cary, Chief Finance Officer was named Trustee.*

*In July of 2002, the Board of Alderman requested that I begin an investigation of the current retirement plan to identify "irregularities" uncovered by ABC and Associates (the City's Actuarial Firm) wherein ABC identified the following:*

- a. *The city failed to contribute to the Uniformed Defined Benefit Plan (DBP) for 10 consecutive years; and*
- b. *The DBP which was established in 1966, revised in 1976, did not have the required two (2) year actuarial evaluation performed during the period of 1992 through 2002 as required by state law; and*
- c. *The city failed to initiate an annual review of the program to update actuarial requirements and re-evaluate investment elements and overall performance during the period; and*
- d. *The failure of the city to fulfill its fiduciary responsibilities to its uniformed employees resulted in a \$1.3 million dollar deficit over a 30 year actuarial period and required the city to commit to an annual retirement plan payment in the amount of \$275,000 beginning in 2003; and*
- e. *As of July 2002, the City of Rock Hill sponsored three (3) different retirement plans for its employees;*
  1. *Mass Mutual Fixed Investment Program for its Uniformed Employees (100 percent participation from the city and no individual participation required); and*
  2. *LAGERS which required the City to contribute .70 percent of total non-uniform salaries to the program and a mandatory employee contribution of 4 percent of their annual salary; and*
  3. *ING 457 Annuity Program offered to all employees (voluntary).*

*Based on this information, I recommended that the Board authorize an entire revamp of the retirement plan system to improve investment performance and annual rate of return with the DBP, program portability, avoid potential litigation involving federal and state discrimination rules, and initiate actuarial audits every 2 years as required by law. Based on this recommendation, the Board authorized the Mayor and then City*

*Administrator Larry Hensley to issue RFP's to potential program vendors (supported by Board minutes). Approximately 36 RFP's were issued with seven (7) firms responding to the request (supported by Board minutes). In August of 2002, the Board asked the Mayor and City Administrator Hensley to review all applications and narrow the field to the best three (3) firms (supported by Board minutes). In September of 2002, based on our findings, we narrowed the list to ING, Nationwide Financial, and another which I can not recall at this time. The Board received all RFP documents mailed to the city by these firms and had ample time to review all of the information. A lengthy debate followed with the Board unanimously approving Nationwide as the new vendor. At that time, the Board requested that the Mayor, then Acting City Administrator, assume full responsibility for coordinating and overseeing all activities related to the establishment of a new retirement plan for the City of Rock Hill. In early October of 2002, I met with the City Attorney and asked him if it would be appropriate for me to seek compensation for my time devoted to the research, oversight, and eventual establishment of the City's retirement plans. I remember this conversation as it took place in a parking lot following a meeting with Rock Hill Quarries Company about the McKnight property. At that time, the City Attorney stated that "he would do some research into the matter and get back to me in a few days". After a few days, I received an email from the City Attorney's office stating in essence that, if the duties assigned to me by the Board of Aldermen can be classified as above and beyond the duties of Mayor, as outlined by City Ordinance, then compensation could be received. At no time did the City Attorney indicate that the arrangement could possibly be deemed unlawful.*

*As a licensed Investment Representative of American General Securities, Inc., I was required to report any changes in employment, compensation, etc. to the firm, and therefore immediately contacted the AGSI Compliance Director, Sander Ressler, to seek his advice and thoughts on the matter. Mr. Ressler researched the matter with the firm's legal team and determined that compensation was acceptable if, the Board of Alderman signed approval documents authorizing me to act on their behalf in creating the new retirement plans and agreed to compensation for services rendered. The AGSI Compliance Department prepared the authorization forms which I presented to the Board in Executive Session and all but one (Alderman Matthew Knuckles) signed the approval form. Six (6) copies were kept at City Hall and another six (6) copies were mailed to AGSI's Compliance Department.*

*During the period of September 2002 through September of 2003, no further mention of compensation was discussed. It was during a retirement plan meeting with all 49 city employees where compensation percentages for Meeder Financial (3<sup>rd</sup> Party Money Manager for the Defined Benefit Plan) versus my firm (Financial Strategies Group Of St. Louis) were discussed in detail and illustrated on a white board. At that time, employees were given the option to sign with Meeder or Financial Strategies. All but one decided to sign with Financial Strategies Group of St. Louis. At no time were any of the employees coerced into signing with either firm. (Note: It should be noted that my compensation from Nationwide for the Defined Benefit Plan was approximately 200 basis points less than the maximum amount of 400 basis points allowed by law. Further, my compensation after the plans were instituted amounted to only 12 basis points per year, significantly*

*under other like programs assessing 25 basis points per year.) My goal had always been to establish an effective and fair retirement plan for all employees, ensure that individual investments were based on sound advice and careful consideration of the individual's long term financial needs, and clearly establish an individual service level which would act as the standard for future investment representatives. At no time had I intended to be involved with this program more than a few months.*

*In November of 2003, I was admitted to emergency at St. Luke's Hospital and remained in ICU for two of three (3) weeks in the hospital. During this period, four (4) documents related to authorizations for compensation for me, Gateway Pension Services, Nationwide Financial, and Meeder Financial were fraudulently signed using my name. These documents were processed at City Hall, forwarded to Gateway Pension Services, and presented as having authentic signatures by me as Mayor. At no time did I ever see these documents until a few months ago. Further, in the months of December, January, and February, the Board of Alderman approved both Plan Documents prepared by the City Attorney's office, approved Nationwide, Gateway Pension Services, and Meeder Financial as 3<sup>rd</sup> Party Administrator, Service Provider, and 3<sup>rd</sup> Party Money Manager, respectively. All documents related to these firms and programs were submitted for Board review prior to receiving approval. Ordinances were passed based on these documents. During the entire period of December through most of February, I was unavailable to participate full time in city affairs.*

### **3.**

### **Payroll and Personnel**

The city did not have ordinances establishing the duties for some officials and employees and did not establish the ordinance allowing former Mayor Salamone's additional salary in a timely manner. In addition, raises given employees were not in compliance with the city's policy and the city's personnel policy is not complete and up-to-date. Timesheets are not always signed by city employees and/or approved by their supervisor. Finally, the city needs to review the legality of the money purchase pension plan established for all city employees.

- A. The city has not adopted ordinances to establish the duties of some city officials and employees. No ordinance currently exists for the Director of Finance, the Human Resources Manager, or the Director of Parks and Recreation. In addition, it appears the written job descriptions for the City Clerk, Assistant City Clerk, and Bookkeeper contain overlapping duties.

Section 79.290, RSMo, requires the duties of city officials and employees to be set by ordinance. To ensure compliance with state law and to avoid misunderstandings, the Board should adopt ordinances which specify the terms of office and clear job descriptions of all city officials and employees.

The city regularly had vacant positions, changes in positions, and added and eliminated some positions during the two years ended March 31, 2005. This may

have resulted in some confusion and a breakdown of city controls, as noted in MAR 4. In addition, this may also have resulted in disorganization and the city's inability to locate several invoices, contracts, and bids/proposals as noted in MARs 1 and 4 and further substantiates the need for ordinances clearly establishing the duties of all city officials and employees.

B. Several concerns were noted regarding compensation paid to former Mayor Salamone.

1. Former Mayor Salamone was elected in April of 2002 to a four year term and received a monthly salary of \$275 for his official duties. Additional compensation granted him totaling \$3,637 was unsupported by state law.

In June 2003, former Mayor Salamone was compensated \$937 for time spent in court hearings and depositions on behalf of the city. While the time spent on court hearings and depositions may not have been an everyday occurrence, it would appear this is an extension of his official duties and would, therefore, not require additional compensation.

In addition, after the termination of former City Administrator Boyer, former Mayor Salamone received additional compensation for other duties being performed related to negotiations for the proposed city center, capital campaign, and other redevelopment projects. He began receiving payments for these additional duties as an independent contractor beginning February 2004; however, the Board of Aldermen did not formally approve his hiring as Interim City Administrator until March 2004. The extra payments granted him prior to the board's approval amounted to \$2,700. While the compensation for the additional duties may have been appropriate with the board's approval, the compensation earned for the month of February 2004 does not appear to have been appropriate.

Section 79.270, RSMo, states that the salary of a municipal officer shall not be changed during his term of office. In addition, the additional compensation paid to former Mayor Salamone appears to violate Section 105.454, RSMo, which states that no elected or appointed official of any political subdivision; serving in an executive capacity shall perform any service for such political subdivision for any consideration other than the compensation provided for the performance of his official duties.

2. The city did not have a written contract with former Mayor Salamone for his additional duties and invoices documenting services provided only included the date the service was provided and the total amount requested. Additional detail including the work performed and the number of hours worked was not provided.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. In addition, detailed invoices should be obtained from independent contractors to support the services provided and the payments made.

- C. Raises given employees for the years ended March 31, 2005 and 2004 were not always in compliance with the city's policy. Raises were received each year for cost of living adjustments and performance appraisal increases. The following raises were not given in accordance with city policy:
1. Annual performance appraisals could not be located supporting raises for three employees in fiscal year 2004 and two employees in fiscal year 2005. In addition, the actual raise received by three additional employees did not appear to agree to the suggested increase as documented in their performance appraisal. There was no documentation supporting any amount other than that noted in the applicable performance appraisal. City policy requires annual performance appraisals which should provide supporting documentation for actual employee pay increases.
  2. An agreement allowing salary increases for the Zoning Compliance Specialist was not documented. Per discussion with city officials, the Zoning Compliance Specialist had a verbal agreement with her supervisor allowing for salary increases as training was attended and certifications were received. The raises received are supported by the appropriate training and certification; however, the agreement allowing the raises was not in writing and was not supported by the city policy.
  3. In April 2004, the public works foreman received a payment of \$1,798. Personnel records indicate this was a "one time payout" and the employee's monthly salary did not increase. Per city officials, a lump sum payment was given to the public works foreman because he had already reached the top of his pay scale. This is supported by city policy which suggests awarding merit pay for an employee at their maximum in a lump sum. However, there was no documentation supporting the approval of this payment or the amount awarded.

Raises should be given in accordance with city policy and adequate supporting documentation should be maintained to support all employee raises.

- D. The city's personnel manual has not been updated since 1998. The manual includes policies related to longevity pay and sick leave use incentives which the city no longer allows. The manual also discusses a salary schedule and an evaluation process which are no longer relevant. In addition to these outdated

policies, we noted the following concerns regarding the city's personnel manual and policies:

- The city does not have a detailed written policy on tuition reimbursements. The city's existing policy indicates that each department head is responsible for developing such a policy. However, per discussion with city officials, no written policies have been developed.
- The city does not adequately monitor its outside employment policy. The city's policy allows employees to engage in other employment, provided that such work does not interfere with the employee's work at the city. Employees who engage in outside employment are required to notify their supervisor; however, the information is not added to the employee's personnel file and reviewed by the Board of Aldermen, Mayor, or Human Resources Manager for compliance with the city's policy.
- The personnel manual does not establish the city's formal workday, including when and how long employees can take for lunch and breaks.

An updated comprehensive employee manual which summarizes policies can benefit both city officials and employees by providing a basic understanding between management and employees regarding rights and responsibilities. In addition, an updated employee manual can help ensure that management's policies are fairly and consistently applied to all city employees. Also, an updated and complete personnel file should be maintained for each employee by the Human Resources Manager to document compliance with the city's policies.

- E. Timesheets were not signed by some employees and/or their supervisor. We scanned March and November 2004 timesheets and noted 28 timesheets that were either not signed by the employee, approved by their supervisor, or both. Adequate control over payroll expenditures requires documentation, such as properly completed timesheets signed by employees and approved by supervisors, to provide evidence that the appropriate amount of time is worked each month.
- F. During the year ended March 31, 2004, the city contributed to a pension plan on behalf of police and fire department employees, as well as a money purchase pension plan for all non-uniformed employees of the city. While the police and fire pension plan is allowed by state law, the city is apparently prohibited from establishing its own retirement plan for other non-uniformed city employees. The Missouri Constitution, Article 6, Section 25, states that political subdivisions can only provide pensions for its employees when such authority is given to the political subdivisions by the General Assembly. No statutory authority has been given for cities to provide their own retirement plan. Section 70.600, RSMo, the statute creating the Missouri Local Government Employees' Retirement System (LAGERS), states its purpose as "providing for the retirement or pensioning of the officers and employees...of any political subdivision of the state...". Section

70.615, RSMo, stipulates that after October 13, 1967, a political subdivision shall not commence coverage of its employees under another system other than LAGERS.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish by ordinance the job descriptions of all officials and employees.
- B. Consult with legal counsel and determine if the additional compensation granted former Mayor Salamone prior to the approval of the ordinance establishing his additional duties (and related compensation) was appropriate. In addition, the Board of Aldermen should enter into written agreements for all services and require adequately detailed invoices be obtained supporting payments to independent contractors.
- C. Ensure raises given all employees are in compliance with city policy and adequate supporting documentation is maintained to support these raises.
- D. Update the employee manual and include detailed written policies for tuition reimbursements, outside employment, and the city's official workday. Also, an updated and complete personnel file should be maintained by the Human Resources Manager for each employee.
- E. Ensure timesheets are signed by employees and a supervisor.
- F. Consult with legal counsel and review the legality of the city's retirement plan for non-uniformed employees.

**AUDITEE'S RESPONSE**

- A. *The City of Rock Hill agrees with the State Auditor and will take action to make sure all responsibilities of all officials and staff members are covered in the city's code book of ordinances. Detailed job descriptions are maintained for these and for the employee positions. These job descriptions require ongoing review and revisions. Changes to the job descriptions are approved by the Board and maintained by the Human Resources Manager.*
- B. *The Board of Aldermen did not authorize Mayor Salamone to be compensated for time spent in court hearing and depositions on behalf of the city.*  
  
*Mayor Salamone offered to do additional work on a temporary emergency basis due to the termination of the City Administrator. The Board did not authorize Mayor Salamone to be paid any more than the ordinance states.*
- C. *The Board agrees that raises should be given only in accordance with city policy and ordinances.*



- D. *The City of Rock Hill is currently in the process of updating the personnel manual.*
- E. *The Acting City Administrator now reviews each timesheet before signing paychecks. No checks are signed or released until all signatures have been received.*
- F. *The City Attorney has reviewed the matter and believes the city is operating lawfully.*

**Response from Robert Salamone**

- B.1. *The \$937 in compensation for depositions and court hearings was approved by the Board of Alderman and sanctioned by the City Attorney, based on the City Attorney's position that the duties in question were, "above and beyond the normal duties of Mayor".*

*The additional compensation received after the termination of then City Administrator Joan Boyer was approved by the Board of Alderman in Executive Session, in the presence of the City Attorney in February of 2004. The City Attorney never advised that it was necessary to have an ordinance adopted. With his approval, my compensation was made retroactive as of March, 2004 and continued forward until July of 2004 when I retired from office. The City Attorney never advised that my compensation as Acting City Administrator was in any way unlawful.*

- B.2. *The City Attorney never advised the Mayor or Board that a contract for services was necessary.*
- F. *The City Attorney's law firm researched, designed, and prepared two (2) individual Plan documents for the proposed retirement plans. This process took months and cost the City over \$15,000. It was my impression that the City Attorney had performed appropriate due diligence in researching and preparing documentation for these plans. At no time did the City Attorney advise the City that these plans were in potential violation of state law.*

<b>4.</b>	<b>Expenditures</b>
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Invoices and supporting documentation were not always retained and expenditures were not paid in a timely manner. In addition, the city did not prepare or retain written agreements for all services provided, did not solicit or retain bids/proposals in accordance with their policy, incurred expenditures that were not a prudent use of public funds, and did not have policies related to credit card use, employee meals while on non-travel status, and YMCA benefits. Finally, the city did not report all allowances and fringe benefits in accordance with IRS guidelines.

- A. Several expenditures were not adequately supported by vendor invoices.

<u>Expenditure</u>	<u>Amount</u>
City hall expenses	\$ 8,455
Property appraisal	2,500
Class registration	1,500
Delivery of city flyers	400
Cash advance	169
Petty cash reimbursement	156

While some of the above expenditures are self explanatory, it is unclear exactly what was purchased or what service was provided for expenditures such as the city hall expenses, the cash advance, and the petty cash reimbursement.

In addition, former Mayor Salamone's reimbursements for city business on his personal cell phone totaling \$837 for three months of calls were not supported by adequate documentation. These costs were also significantly more than the average \$130 per month the city paid for the city cell phone used by the former Mayor subsequent to these reimbursements.

All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.

- B. Due to the untimely processing of payments, late fees and finance charges totaling \$1,180 were incurred on several city purchases and unemployment tax submissions from May 2003 through December 2004. Invoices for cell phones and credit cards were not paid by their due date and unemployment tax submissions to the Division of Employment Security for the first quarter 2004 and the fourth quarter 2003 were late. Also, although no late fees were incurred, one expenditure for a land appraisal was paid eight months after it was due.

City officials indicated that at this time the city was experiencing a decreasing cash balance and had to closely monitor expenditures. In addition, there was constant turnover in the administrative department that was responsible for accounts payable duties (see MAR 3). This may have caused some confusion as to who was responsible for these procedures and ultimately resulted in the late fees and finance charges.

The city should ensure accounts payable duties and procedures are clearly defined and invoices are processed in a timely manner to prevent the assessment of late fees and finance charges.

- C. The city did not enter into contracts or could not locate contracts for services provided from April 2003 through January 2005 for the following payments:

<u>Expenditure</u>	<u>Amount</u>
Street repair	\$209,011
City Attorney's legal services	243,311
Legal fees related to a personnel matter	19,000
YMCA memberships	16,000
Special review of retirement plans	2,131

In addition, the city has not entered into written agreements with independent contractors providing accounting and bookkeeping services and the invoices submitted for these services did not always include adequate detail including the work performed. Prior to his official hiring in August 2003, the Director of Finance provided contract accounting services to the city totaling \$8,591 from May through August 2003. Another individual provides various services to the city including bookkeeping and serving as an assistant to the Mayor. For the year ended March 31, 2004, the city paid her \$5,766 for these services and has paid an additional \$22,879 in fiscal year 2005 through January 2005.

Because the city has not clearly described the relationship they intended to create with the individuals providing the services through a written contract, it is not clear why these individuals were considered independent contractors or if they actually meet the Internal Revenue Service (IRS) criteria for being an independent contractor. As a result, if the city classified an employee as an independent contractor and had no reasonable basis for doing so, the city may be held liable for employment taxes for that worker.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. In addition, detailed invoices should be obtained from these independent contractors to support the services provided and the payments made.

- D. The city's purchasing policy requires the city to advertise for bids for expenditures over \$5,000, obtain at least three written bids for purchases between \$500 and \$5,000, and obtain at least three oral or written bids for purchases between \$100 and \$500. In addition to the items noted in MARs 1 and 7, for purchases from April 2003 through January 2005, the city either did not always solicit bids/proposals in compliance with their bidding policy or did not always retain bids/proposals, discussed in board meeting minutes, documenting their compliance with the policy for the following goods and services:

<u>Expenditure</u>	<u>Amount</u>
Street repair	\$209,011
Accounting system and subsequent support	44,859
Compensation and classification study	15,000
Urban planning	8,772
Police department radios	5,480
City Center property appraisal #1	4,800
City Center property appraisal #2	3,000

The city's bidding procedures provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids/proposals can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid in accordance with city code. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

E. During the fiscal year ended March 31, 2004, the city held dinners and purchased gifts for employees that did not appear to be prudent uses of public funds. The city also held a Christmas party in December 2004. The city spent approximately \$7,152, on these events and gifts.

- The cost of a July 2003 employee farewell dinner for a retiring city employee was \$238 for an appetizer buffet.
- The cost of a November 2003 appreciation dinner for 35 employees and officials at a local casino totaled \$1,576, including \$200 for attendance prizes. In addition, the city gave each employee in attendance \$25 in cash and \$50 in cash was given to employees that could not attend the dinner because they were working.
- The cost of holiday cookie tins distributed to employees and other persons doing business with the city totaled \$1,094 in December 2003.
- The cost of gifts purchased for the retiring Assistant Fire Chief totaled \$213 in March 2004.
- The cost of the December 2004 employee Christmas party totaled \$626, including \$252 in food, \$299 in Christmas presents for board members, and \$75 in supplies. Also, each employee received a \$50 gift certificate.

The total cost of the gifts to employees was \$3,405 and was not budgeted as part of the employees' official salaries.

The costs of the dinners, parties, and gifts purchased appear excessive and do not appear to be prudent uses of public funds. Gift certificates and cash gifts given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution. In addition, Attorney General's Opinion No. 72, 1955 to Pray, states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

- F. The city does not have a formal policy regarding credit card usage or guidelines to determine whether credit cards are needed or of benefit to the city. During the audit period the city maintained as many as four separate credit cards that were used by various officials and employees. Credit card purchases from April 2003 through January 2005 exceeded \$15,300.

Credit card statements were paid without adequate supporting documentation of purchases. Supporting documentation, such as original invoices, could not be provided for 38 credit card purchases reviewed. Twenty-one of these purchases were for meals. An additional 12 meal purchases were supported by an invoice but did not document the purpose of the meal and/or who was in attendance. The other invoices that could not be located included charges for lodging, computer software, food, and office supplies.

In addition, some credit card statements and supporting documentation could not be located by the city for the months of July through October 2003, December 2003, and February 2004. The payments made by the city for these statement months totaled approximately \$4,700. The city has subsequently provided us with copies of these statements; however, supporting documentation was also not available for these statements.

Finally, sales tax of approximately \$56 was paid on some credit card expenditures and there were some personal purchases (groceries) totaling approximately \$173 on credit cards that were subsequently reimbursed to the city.

The city should adopt policies and procedures to ensure credit cards are used for only necessary city-related purposes and are not used for personal purchases. The city should also retain all credit card statements and require the users of the credit cards to submit invoices or other documentation for all charges. Without such documentation, it is unclear whether these purchases are valid and necessary city expenditures.

- G. The city does not have formal policies regarding using city funds for employee meals while not on travel status or for meals of non-city employees. As noted above in part F, we reviewed several expenditures for meals that included at least one guest and/or meals for city officials in the St. Louis area.

The city should develop formal policies regarding these issues, which address meal expenditures for non-city employees and require documentation of the city-related business purpose of each meal. The policy should also address when in-town meal expenditures for city employees are allowed. Documentation should include the purpose of the meeting or meal and a list of the individuals participating.

- H. Police and fire department employees were not required to submit invoices or an itemized expense report to support the uniform allowances paid in March 2003 or September 2004. In addition, former City Administrator Boyer's contract allowed her to receive a monthly vehicle allowance of \$350 to cover mileage and insurance costs; however, she was not required to account for the actual miles driven on city business or document the actual expenditures incurred.

These uniform allowances and vehicle allowances were not included on the employees' W-2 forms as compensation. IRS Regulations 1.62-2(h) and 31.3401(a)-4(b) specifically require employee business expenses not accounted for to the employer to be considered gross income and payroll taxes to be withheld from the undocumented payments.

- I. The city does not have a policy addressing the YMCA memberships provided various department heads and other employees and this fringe benefit was not included on W-2 forms as compensation. The city paid a monthly membership fee of approximately \$30 per employee to the YMCA for a total of approximately \$16,000 from April 2003 through January 2005. This benefit is primarily for the police and fire department employees, providing them a place to workout and stay fit to meet the daily demands of their job; however, this benefit is also offered to any other city employee that wants to participate.

IRS publication 15-B requires athletic facility fringe benefits be included in the employee's pay when the facility is not on the city's premises or when the facility is not owned or leased by the city.

- J. The city has not established procedures to ensure all payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the IRS as required. For calendar year 2003, the city did not report a payment to the previous mayor for court services totaling \$937. For calendar year 2004, the city did not report the payments to an attorney providing legal services totaling \$19,391. Sections 6041 through 6051 of the Internal Revenue Code require non-wage payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on 1099-Misc form.

**WE RECOMMEND** the Board of Aldermen:

- A. Require adequate supporting documentation for all expenditures.

- B. Clearly define accounts payable duties and procedures ensuring all invoices are processed in a timely manner.
- C. Enter into written agreements for all services. In addition, the relationship between the parties involved should be clearly defined, including the basis for classifying the service as being provided by an independent contractor, in accordance with IRS guidelines. Also, adequately detailed invoices should be obtained supporting payments to independent contractors.
- D. Ensure bids/proposals are solicited and retained for goods purchased and services provided in accordance with the city's bidding policy.
- E. Ensure all city expenditures are a prudent use of public funds. In addition, the city should discontinue paying gift certificates or cash gifts to employees.
- F. Review the use of the city's credit cards and adopt applicable policies and procedures to help ensure credit cards are used only for necessary city-related purposes and not for personal purchases. These policies should require retention of credit card statements and adequate supporting documentation for all charges prior to payment, such as detailed invoices.
- G. Adopt policies regarding the payment of meal expenses for guests and in-town meal expenditures for city employees. Adequate supporting documentation and the purpose of the expenditures should be maintained to ensure such expenditures are for necessary city business.
- H. Require adequate support for these reimbursements or ensure allowances are included on employee W-2 forms in compliance with the IRS reporting requirements.
- I. Adopt a personnel policy addressing the YMCA membership benefit. In addition, the Board of Aldermen should ensure taxable benefits are reported as gross income and payroll taxes are withheld from these payments.
- J. Establish procedures to ensure payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the IRS as required.

#### **AUDITEE'S RESPONSE**

- A. *The City of Rock Hill agrees with the recommendation of the State Auditor's Office. We always strive to maintain adequate documentation.*
- B. *The City of Rock Hill strives to process all invoices in a timely manner. The current method of processing invoices is more effective than in the recent past.*

- C. *As stated in the city's response to 3. Payroll and Personnel, Point B, the city agrees with this recommendation of the State Auditor's Office.*
- D. *The City of Rock Hill has recently changed its bidding policy in order to ensure more complete compliance. Monthly, the Board reviews all bills to be paid and will not approve any payments for which they have not seen the proof that the bidding process has been properly done.*
- E. *The City of Rock Hill agrees that the prudent use of public funds is of the utmost importance. The prudent use of public funds must be maintained to provide the best opportunity for the city to provide quality services to its citizens. The Mayor and Board of Aldermen believe that a trained and motivated staff of employees is necessary to provide the quality of services that the citizens deserve. In a small city with limited revenue, large raises can not always be used to maintain such a basis of employees. Many management resources recommend other positive reinforcements at different times of the year are helpful in achieving this goal.*

*The Mayor and Board of Aldermen believe that demonstrating care to employees creates employees who care. Thanking a long term employee at retirement, an employee banquet and small holiday gifts for employees are a part of demonstrating this care. In a similar manner, flowers are sent for funerals or employees who are in the hospital. As the elected representatives of the citizens of Rock Hill, the Mayor and Board believe the citizens would agree.*

*The statement that an appreciation dinner was held at a local casino may lead some people in the public to an incorrect conclusion. The appreciation dinner was not held inside the casino area. It was held on a floor that does not have gaming activities. The city did not pay for alcoholic drinks and gambling was not a part of the appreciation dinner. None of the city's money went towards any gambling activities. After the event, the Board passed a motion not to have any such future events at any casinos due to the incorrect conclusion that some people may reach. To that end, the Mayor and Board are planning to be more personally involved in the employee appreciation functions in the future and the budget for this has been lowered.*

*The Mayor and Board of Aldermen do respect the opinion of the State Auditor's Office but believe spending a few dollars to demonstrate they care for their employees is a prudent and cost effective use of public funds.*

- F. *Currently, the city has only one active credit card. It is held by the Acting City Administrator. A detailed invoice is turned in for each purchase and retained for payment. When an expenditure is for a meal, a separate page is included stating who was at the meeting and what subjects were discussed. If an item is confidential, some level of explanation which demonstrates the city purpose is included. Additional cards have not and will not be issued until a new written policy and procedure are approved. With only one card in use, it is easy to insure the proper information is obtained.*



*The city knows it is tax exempt even on credit card purchases. There are times when the Acting City Administrator has found a needed item outside of normal work hours. The city will save more in the cost of the time to make the purchase the next day during normal work hours than the amount of the sales tax that could be saved. The Acting City Administrator now has a copy of the city's tax exempt letter in a briefcase he takes home at night. This may save both time and sales tax in the future.*

- G. The City of Rock Hill has complied with the recommendation of the State Auditor's Office. A list of who attended city-related meals as well as the subjects discussed are now required.*
- H. The Board of Aldermen at their April 6, 2005 meeting changed the uniform allowance treatment so all departments are handled the same. The city will not make payment without detailed invoices.*
- I. Police officers and fire fighters are required to meet a fitness/agility requirement. The city has determined that it is appropriate to provide workout facilities so they can meet this job requirement. If the city went to the expense to build, own and equip a workout facility it would not be considered a taxable benefit. Unfortunately, the IRS believes that providing a more cost effective alternative should be taxable. This creates cost inefficiencies for small cities and an unfair burden for the employees of such cities.*

*The city also believes that employees that exercise stay healthier. Those employees don't get sick as often and generally recover faster. This increases productivity for the city.*

*The City of Rock Hill recognizes the reasons for the recommendation of the State Auditor's Office. The personnel policy will include a policy for membership to a workout facility and payments will be included as gross income as required by the IRS.*

- J. The city does have a computerized system that does help to identify those who should receive a form 1099 as required by the IRS. The city has issued 1099s and believes a well-written policy and procedure will help insure 1099s are issued to all appropriate individuals and businesses.*

*It should be noted that the amount for Mayor Salamone was missed because the accounting employee thought he was only being paid for expenses at that time.*

*The city issues 1099s for all law firms that receive more than \$25 in a year. This law firm was only working at the Board's direction on personnel and litigation issues. Confidential information from their invoices was maintained by the Human Resource Manager. Because of this, the person working on the 1099s was unaware this was a law firm.*

*In the future, the list of vendors will be reviewed by the Human Resource Manager and the Finance Director to be sure such firms are included. This will be included in new written procedures.*

**Response from Robert Salamone**

- A. *During the period in question, I was deeply involved in overseeing negotiations, preparing legal documents, and planning for nearly \$3.5 million in economic development projects for the city. The city did not furnish me with a cell phone at that time and I was forced to use my personal cell phone for city business related to these projects. Appropriate documentation was submitted to Mr. Donald Cary, Chief Finance Officer on a monthly basis. Copies of my statements were submitted and calls identified.*

<b>5. Board Meetings, Minutes, and Ordinances</b>
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Minutes for board meetings are not always maintained, signed or approved in a timely manner or adequate. In addition, minutes are not maintained for all closed meetings, information discussed in closed meetings was questionable, and the city did not properly announce or post an agenda for a closed meeting. Also, the city needs to improve its controls over information requested by the public and adopt ordinances in a timely manner.

- A. Minutes of meetings could not always be located and some meeting minutes were not approved in a timely manner by the Board of Aldermen or signed by the clerk and mayor. Open meeting minutes are usually prepared by the city clerk (or deputy city clerk in the clerk's absence) and signed by the mayor and the clerk; however, the minutes for meetings on June 24, 2003 and August 11, 2003 could not be located. In addition, during the April 7, 2004 meeting, the minutes from December 22, 2003 through the previous meeting were approved. Also, minutes from April through December 2004 were not signed by the clerk and mayor.

Section 610.020, RSMo, requires minutes be taken and retained for meetings. In addition, by not approving minutes on a timely basis, there is less assurance the matters discussed at the board meeting are accurately reflected in the approved minutes. Approving minutes three or more months later does not provide a timely and effective record of the activities of the board to the public. The minutes should be approved by the board on a timely basis and signed by the clerk and mayor immediately upon approval to provide attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

- B. Board minutes did not always include sufficient detail of matters discussed and actions taken.
- 1) Votes by alderman were not always recorded.
  - 2) Meetings were not always officially called to order and members present or absent at the board meetings were not always recorded.

- 3) Minutes were sometimes presented in outline form and did not include adequate detail as to what was being discussed or voted on.

Section 610.020, RSMo, states that the minutes shall include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes provide an official record of board actions and decisions.

This condition was also reported by the city's independent auditors.

- C. Closed meetings were not always adequately documented or conducted in accordance with state law. Per discussion with city officials, the city only prepares and maintains closed session minutes when votes are taken on an issue being discussed. Our review of closed meeting minutes noted the following concerns:

- 1) The board regularly conducts closed meetings but does not always prepare minutes of the meetings.
- 2) Minutes of applicable open meetings did not always indicate the reasons and votes taken to go into closed session.
- 3) The city did not document how some items discussed in closed session complied with state law. These items included discussions of staffing levels, job descriptions, and services provided to citizens.
- 4) The city did not properly announce or post an agenda for the closed meeting held concerning the termination of the former city clerk. Per discussion with city personnel, approval authorizing the termination, on June 7, 2004, was originally solicited and received from each board member via phone conversation or e-mail. This action constitutes an official board vote and meeting, but was not properly announced or performed in accordance with state law.

Board actions requiring the use of closed meetings should be held in compliance with Chapter 610, RSMo. Section 610.020, RSMo, requires minutes for closed meetings shall be taken and retained by the public governmental body, including but not limited to, a record of any votes taken at such meeting. The minutes shall include the date, time, place, members present, members absent and a record of any votes taken. Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and certain personnel issues, and requires the votes taken and final decisions to be made public. Section 610.022, RSMo, requires the board to vote in open session to close a meeting and to announce publicly the reasons for going into closed session. This law also provides that public governmental bodies shall not discuss, record, or vote on any other business during the closed meeting that differs from the specific reasons used to justify such meeting.

- D. The city does not have adequate controls to ensure compliance with the Sunshine Law in following up on information requested by the public. The city does not maintain a log of public requests. Section 610.023, RSMo, provides each request for access to a public record shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request was received by the custodian of records of a public governmental body. If access to the public record is not granted immediately, the custodian shall give a detailed explanation of the cause for further delay and the place and earliest time and date that the record will be available for inspection.

To ensure the city is complying with this statute, the city should document adequate information in a request log to determine if requests are completed timely and that all requests are adequately fulfilled.

- E. Ordinances were not adopted in a timely manner. Our review noted the following concerns:
- 1) Voters approved a parks and stormwater tax in November 1999, but the city did not officially add an ordinance to its city code until June 2004.
  - 2) An ordinance authorizing the additional duties and salary of former Mayor Salamone was not approved by the board until June 2004 (see MAR 3).
  - 3) Prior to March 2003, the city did not have an ordinance establishing the mayor's and aldermen's salaries.

Since the ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is imperative the city's ordinances be complete, well organized, and current.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure minutes are maintained for all meetings as required by state law. In addition, the Board of Aldermen should ensure minutes are approved on a timely basis and signed by the mayor and the city clerk in order to attest to their accuracy and completeness.
- B. Ensure minutes are complete and include all required information.
- C. Properly conduct all closed meetings and document applicable matters in accordance with state law.
- D. Ensure a public request log is maintained and that the city is complying with the Sunshine Law.
- E. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.

## **AUDITEE'S RESPONSE**

- A&B. The Board believes it is in the public's best interest to have minutes that cover the subjects and the areas discussed at each meeting. The Board does not believe this requires verbatim minutes of every word that is spoken. The Board closely reviews the minutes and amends them for additional information. The city does tape record the meetings and these tapes are maintained and made available to the public. High employee turnover was the cause of delay.*
- C. The City of Rock Hill is currently complying with all applicable statutory requirements. The Board intended closed session minutes to be kept properly. Apparently, the turnover of administration employees that occurred during the time Joan Boyer was the City Administrator negatively impacted in issuing and maintaining closed session minutes of meetings.*
- D. The City of Rock Hill is prepared to log all public requests for information.*
- E. A complete review of the codifications of the city's ordinances has been done. It is currently being analyzed and will be presented to the Board for consideration and approval.*

*The city regularly receives new proposed ordinances from the City Attorney that are required to comply with new state laws and other regulations. An example is a recent bill that was required for administrative search warrants.*

<b>6. Budgets, Financial Reporting, and Planning</b>
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The city's budgets were not always complete and actual expenditures exceeded the original budget amount for two funds during the year ended March 31, 2004. In addition, the city did not publish their financial statements semi-annually, submit an annual financial report to the State Auditor's Office for the year ended March 31, 2002, or submit the report for the year ended March 31, 2004 in a timely manner. The city also needs to develop a formal street maintenance plan.

- A. The fiscal year 2004 budget does not include beginning and projected ending fund balances for the General Fund or a budget for the Police Training Fund. In addition, the fiscal year 2005 budget lacks some required information regarding the city's debt; does not present prior years actual expenditures for the General Fund in adequate detail, only presenting totals by department; and only includes the General Fund.*

Section 67.010, RSMo, requires each political subdivision of the state to prepare annual budgets with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget

should include appropriate revenue and expenditure estimates by classification, and include the beginning available resources and reasonable estimates of the ending available resources for all funds. The budget should also include a budget message and information on interest, amortization, or redemption charges on debt.

- B. For the year ended March 31, 2004, the city's actual expenditures exceeded the amounts budgeted for the Tax Increment Financing (TIF) Fund and the Sewer Lateral Fund as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
TIF Fund	\$ 0	2,660	(2,660)
Sewer Lateral Fund	45,000	52,402	(7,402)

Prior to their request in July 2004, the Board did not receive reports showing the balances of each fund and an analysis of the budgeted and actual revenues and expenditures to date and were unable to properly monitor the status of the budget. Quarterly financial statements are now prepared by the Director of Finance and reviewed by the board, but budget and actual results are only available for the General Fund as noted above in part A.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

This condition was also reported by the city's independent auditors.

- C. The city does not publish semiannual financial statements. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semiannual statements of receipts, expenditures, and indebtedness of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.
- D. The city did not submit an annual financial report to the State Auditor's Office for fiscal year 2002. In addition, while the 2003 annual financial report was submitted timely, the 2004 report was not delivered to the State Auditors until it was requested from the city. Section 105.145, RSMo, requires political subdivisions to timely file an annual report of the financial transactions of the political subdivision with the State Auditor's Office.
- E. A formal maintenance plan for all city streets has not been prepared annually. Upon the issuance of general obligation bonds in 2002 for the construction and reconstruction of streets, a plan was prepared; however, it only included a small portion of the city's streets that were to be repaired with bond proceeds over the

next several years. A complete maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the city budgets are prepared in accordance with state law.
- B. Ensure actual expenditures do not exceed budgeted amounts. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such.
- C. Prepare and publish semiannual financial statements in accordance with state law.
- D. Submit annual reports of financial transactions to the State Auditor's Office as required by state law.
- E. Prepare and document a maintenance plan at the beginning of the year and periodically update the plan throughout the year. In addition, the Board of Aldermen should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

**AUDITEE'S RESPONSE**

- A. *The city's 2006 budget message does include a statement articulating that additional information will need to be prepared and included in this budget.*
- B. *The City of Rock Hill agrees with the recommendation of the State Auditor's Office.*
- C. *The city recognizes the benefits of regularly updating the citizens about the financial condition of the city. In addition to the required publication, the city plans to include this information in the city newsletters that are delivered to every home in the city. This meets the intent of the law. This will be in addition to publishing the results in an appropriate newspaper to meet the letter of the law.*

- D. *A copy of the fiscal 2002 audited financial statement has been forwarded to the State Auditor's Office. Future audits will be provided when completed.*
- E. *Earlier this spring the city hired a new firm to act as the city's engineer. This firm has reviewed all the streets in the city. They have been acquiring the engineering drawings that have been prepared for some of the streets. They are combining this information to create a maintenance plan that includes reasonable estimates of the costs to properly repair the streets. This firm has worked with the city's Public Works Department to determine which streets were in the worst shape and that department has started this work.*

*In a small city like Rock Hill, it would be hard for the Mayor and Aldermen to avoid seeing repair projects while they are in progress. The questions they have raised from doing this insure the current projects are being completed correctly and in a timely manner as well as providing them with the strong base of knowledge that the auditors are recommending.*

<b>7. Dispatch Services</b>
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The city did not formally evaluate the costs and benefits of running its own dispatching service versus contracting for the service, did not solicit requests for proposals for this service, and has obligated the city to pay this contract for five years.

The Board of Aldermen approved an ordinance authorizing a contract with the city of Brentwood for dispatch services in July 2003 and signed the contract the following month. Costs for the first year were \$158,000 plus a one time fee of \$11,134. Each additional year's service cost is increased by three percent.

- A. According to city officials, the contract was negotiated to save the city money over providing the services in-house. During the years ended March 31, 2003 and 2002, the city's in-house dispatching expenses were approximately \$220,100 and \$187,900, respectively. While it would appear the city may be saving money by contracting out this service, there was no documentation that a formal cost/benefit analysis was performed before entering into the contract. In addition, this proposal was not mentioned in the board minutes prior to the board's approval for the mayor to enter into a contract. Such an analysis is necessary to ensure the city's decision is the best economical use of city resources. Including the analysis and discussion of the proposal in the board minutes would also better inform the public as to the associated costs and benefits and allow for public comments on the proposal.
- B. City officials negotiated the contract with Brentwood. No requests for proposals were obtained for this service. Soliciting proposals for dispatching services would help provide a range of possible choices and allow the city to make a



better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost.

- C. The city signed a five year contract with the city of Brentwood for this service, therefore, obligating the city for future periods with no re-appropriation clause. The contract appears to violate the intent of Article VI, Section 26(a), of the Missouri Constitution, which states that no city shall become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years, except as otherwise provided in the Constitution.

**WE RECOMMEND** the Board of Aldermen:

- A. Perform a formal cost analysis before contracting out for future services to ensure the city is making the most economical decisions. All discussions of such proposals should be documented in the board minutes.
- B. Ensure bids or proposals are solicited prior to contracting out for services.
- C. Consult with legal counsel regarding this contract and not incur debt in violation of the Missouri Constitution.

**AUDITEE'S RESPONSE**

- A. *The City of Rock Hill agrees that a formal cost analysis is an important part of selecting a contractor for services. The Mayor and Board also agree that the best qualified vendor is part of the decision process. Analysis of this will also need to be in writing along with any other factors that the Board considers when selecting a contractor for services. Savings to the citizens of Rock Hill of this intergovernmental agreement with Brentwood are obvious; with the contract costs reduced from \$220,100 to \$158,000.*
- B. *The City of Rock Hill recognizes the value of obtaining multiple bids to obtain qualified services and the lowest cost. Rock Hill included the City of Brentwood when it was seeking bids to provide trash removal services. While bids are not required for intergovernmental agreements, Rock Hill will request bids whenever possible. In situations where the city does not seek bids, it will maintain records in minutes of meetings or elsewhere explaining why bids were not sought.*
- C. *The City Attorney for the City of Rock Hill has stated at an open Board meeting that future Boards are not bound by prior Boards' actions. This was stated specifically concerning the contract with Brentwood for dispatching services. The City of Brentwood was well aware of the fact. Since both signers of the contract know the state law and recognize it applies to this contract, the City of Rock Hill does not believe this violates the intent of Article VI, Section 26(a), of the Missouri Constitution.*

The city does not have a formal policy regarding cellular phone usage or guidelines to determine whether a cellular phone is needed or of benefit to the city. In addition, cellular phone bills from one of the city's providers are only in summary form and could not be adequately reviewed for personal use because they were not supported by a detailed listing of the calls made. From April 2003 through January 2005, the city incurred cellular phone charges exceeding \$23,800. Although cellular bills are supposed to be reviewed and approved by the appropriate city department head, our review of the cellular phone bills for one month noted calls which appeared to be personal in nature. After we brought this to the city's attention, the cellular phone bill was re-reviewed for personal calls and, as a result, the city requested and received reimbursement. While the additional charges noted were not significant, it does not appear city funds should be used to pay for personal telephone usage.

In addition, during this same timeframe the city changed carriers, changed plans, and added and eliminated cellular phones. While the city currently appears to have reduced its cellular phone costs by eliminating some phones and modifying plans, a few phones still have little or no usage.

While cellular phones can help increase employee productivity, they are also costly. A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the board authorizes the phone to be used for personal purposes. Effective procedures should be implemented to monitor cellular phone usage and review invoices for propriety. In addition, detailed invoices listing the calls made from each phone are needed in order to perform an adequate review.

**WE RECOMMEND** the Board of Aldermen develop a policy regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor their use. In addition, the Board of Aldermen should ensure detailed invoices are always received from the city's cellular phone providers.

#### **AUDITEE'S RESPONSE**

*The auditors note that a few phones have little usage. In situations where it may be necessary to contact employees on a 24/7 basis the city considers it a positive that those employees are not abusing the cell phones. For example, the Acting City Administrator has such a phone. When possible, the walkie-talkie feature is used because it creates no additional charges. These phones have proven their usefulness when the electric is out and when the employee is out of the office and quick communication is needed. When consolidating to one carrier for all cell phones, several units with only the walkie-talkie feature were acquired. The need for a phone along with the walkie-talkie was considered prior to acquiring these phones. If a position becomes vacant, the phone is maintained and utilized but not assigned permanently to another individual until the position is filled.*

*The city currently uses one provider for all cell phone service. This includes a walkie-talkie feature that saves money. The cell phone bill does detail all cell phone calls. The city considers it a positive when cell phones that are needed for 24/7 communication have limited usage, because the city benefits in emergency response capability without inappropriate usage of the phones.*

**9.**

**Fund Accounting**

The city does not separately account for various restricted revenues in accordance with state law and/or city ordinance.

- A. The city has not established a debt service fund for their street bonds in accordance with the bond covenant and state law and currently deposits all debt service property taxes into the street bond fund. In 2002, the city issued \$3,000,000 in general obligation bonds for the construction and reconstruction of streets and related stormwater control improvements. The city levies a property tax to pay the principal and interest on the bonds. Section 108.180, RSMo, requires debt service taxes be deposited into a separate fund to be used to make all bond principal, interest, and fee payments. In addition, Article II of the bond covenant requires the establishment of a separate debt service fund.
- B. The city does not separately account for the motor fuel taxes and road and bridge allotments received from the county. The city also does not separately account for parks and stormwater, fire department, and capital improvement sales taxes. The city currently deposits all these taxes in the General Fund.

Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets. In addition, city ordinances numbered 1444 and 1529 state that the parks and stormwater and fire department sale tax monies should be deposited into a separate Parks and Stormwater Sales Tax Trust Fund and Fire Protection Trust Fund, respectively.

To ensure compliance with the Missouri Constitution and city ordinances, and to ensure all restricted revenues are adequately accounted for, the city should establish separate funds for these monies and expend these monies directly out of those funds.

A similar condition was also reported by the city's independent auditors.

**WE RECOMMEND** the Board of Aldermen establish a debt service fund to account for the general obligation bond principal, interest, and fee payments in accordance with the bond covenant and state law. The Board of Aldermen should also establish separate

funds to account for other restricted revenues in accordance with the Missouri Constitution and city ordinances.

### **AUDITEE'S RESPONSE**

*The independent auditors that do the annual audit for the City of Rock Hill have stated that the bond proceeds and the taxes levied to pay the bonds have been reported separately as required by state statute. The city will work with the independent audit firm to not only insure the state requirements are met, but to establish a separate debt service fund as recommended by the State Auditor.*

*Sometimes restricted funds are not set up in smaller cities. While accounting personnel may be able to work reasonably with multiple funds, it is often hard for employees of other departments to work on projects where some of the expense comes from one fund and some expenses come from another fund.*

*A significant number of cities do not break out small designated receipts like the Road and Bridge tax because they know they will have more than enough of the appropriate expenditures during that fiscal year.*

*In situations such as these, utilizing the general fund for these restricted revenues and the expenditures can provide better budgetary review and control. The city's independent auditors do review the expenditures and will break out a portion of the fund balance and list it as being restricted for a designated purpose.*

*Rock Hill does recognize the benefit of miscellaneous funds and has created them in the recent past. The Police Department did not spend the amount that had been received in court costs for training for several years. Since it did not appear this would be cleared up within a year, a separate fund was established. This will be done in the future as appropriate.*

<b>10. Capital Asset Records</b>
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The city has not established records to account for all city-owned property and procedures to reconcile capital asset purchases to property record additions. In addition, usage logs are not required for some city vehicles.

- A. The city has not established records to account for all city-owned property. In addition, procedures do not exist to reconcile capital asset purchases to additions from the property records. There is no comprehensive list of all city owned property except for the list of land and buildings owned by the city and the property list maintained by the police department. However, the police department list is not up-to-date or complete, as we noted radios and a computer purchased during 2004 did not trace to the list. Property records are necessary to ensure better internal controls over assets and provide a basis for determining insurance coverage.

The city should establish detailed property records. All property items should be recorded at historical cost or estimated historical cost, if historical cost is not available. The records should be maintained on a perpetual basis, accounting for capital asset acquisitions and dispositions as they occur. In addition, all items should be inventoried annually, reconciling the inventory to the detailed property records, and identified as city property with a tag or similar device.

This condition was also reported by the city's independent auditors.

- B. Usage logs are not required for some city vehicles. In addition, the city does not have a written policy on the proper use of vehicles. Seventeen city vehicles are maintained for the police, fire and public works departments (including three surplus vehicles and the police motorcycle); however, vehicle logs are not maintained for the motorcycle and five vehicles currently used by the police department. Per city officials, the city did maintain a mileage log for police cars several months ago, but this was only for a test period.

Logs are necessary to document appropriate use of the vehicles at all times. The logs should include the purpose and destination of each trip and the daily beginning and ending odometer readings. These logs should be reviewed to ensure the vehicles are being properly utilized and help identify vehicles which should be replaced. Information on the logs should also be used to reconcile fuel purchases and other maintenance charges. In addition, to ensure city vehicles and motorcycles are only used for official city purposes, the city should develop a written policy regarding the use of such vehicles.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure complete and detailed property records are established that account for all property items of the city. These records should be updated for any property additions or dispositions as they occur, and all items should be tagged or otherwise identified as city property. Reconciliations should also be performed between expenditure records and additions made to the fixed asset records. In addition, physical inventories of all city-owned property should be performed periodically and reconciled to detailed capital asset records to ensure that all assets are accounted for properly.
- B. Maintain logs reporting mileage and usage of each vehicle. A supervisor should review the logs periodically for completeness and reasonableness. In addition, a vehicle usage policy should be developed.

**AUDITEE'S RESPONSE**

- A. *The City of Rock Hill will comply with GASB 34 requirements which include detailed assets and depreciation. This policy will provide a reasonable definition of what is a fixed asset. This will need to include written procedures for labeling, depreciation,*

*determining an estimated life, updating property records and physical auditing of the fixed assets.*

- B. The City of Rock Hill recognizes the need to insure the city's vehicles are used for city purposes.*

*The city does own vehicles that are used by various departments. These vehicles are only used for city business and not taken home at night for personal use except as follows. Vehicles are provided for the Captains responsible for operations of the Police and Fire Departments because they are on call 24/7. The Fire Department has another vehicle for times when the Captain responsible for operations is out of town and the next in command will be on call 24/7. This vehicle is available for different departments to use when appropriate for travel to training in and out of town.*

*The city has conducted mileage logs at various times. The mileage has shown the usage was appropriate for the work to be accomplished. While mileage logs give the appearance of vigilance, it would be hard to prove inappropriate use this way. In other cities, it has been shown that the city is better served by the many eyes of the citizens who call and question why a city vehicle was seen at a particular location outside the city limits.*

*At the recommendation of the Fire and Police Departments, the city will be utilizing a new system which will allow them to obtain fuel at different locations when needed. This will address the type of problem that occurred last year when electric in the city was off for a couple of days. This system will require odometer readings and security codes to identify which employee is filling which vehicle. This will provide a log without excessive paperwork. Each department head will be required to review the log before approving the monthly bill for fuel.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF ROCK HILL, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of Rock Hill is located in St. Louis County. The city was incorporated in 1929 and is currently a fourth-class city. The population of the city in 2000 was 4,765.

The city government consists of a mayor and six-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 4-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended March 31, 2004, are identified below. The Mayor was paid \$275 per month and Board of Aldermen members are each paid \$185 per month.

Mayor and Board of Aldermen	Dates of Service During the Year Ended March 31, 2004	
Robert Salamone, Mayor (1)	April 2003 – March 2004	
Edith Brown, Alderwoman	April 2003 – March 2004	
Edward J. Johnson, Alderman	April 2003 – March 2004	
Sheri McCann, Alderwoman	April 2003 – March 2004	
Matthew Knuckles, Alderman	April 2003 – March 2004	
Julie Morgan, Alderwoman (2)	April 2003 – March 2004	
Mike Conran, Alderman (2)	April 2003 – March 2004	
Other Principal Officials and Employees	Dates of Service During the Year Ended March 31, 2004	Compensation Paid for the Year Ended March 31, 2004
Robert Salamone, Interim City Administrator (1)	February 2004 – March 2004	\$ 7,237
Joan Boyer, City Administrator (3)	April 2003 – February 2004	67,888
Don Cary, Finance Administrative Services Director (4)	August 2003 – March 2004	47,179
Tina Capriglione, Human Resources Specialist (5)	June 2003 – March 2004	28,116
Deanna Kaber, City Clerk (6)	February 2004 – March 2004	3,689
Penny Thomas, City Clerk (7)	July 2003 – January 2004	23,514
John Kriska, Fire Chief (8)	April 2003 – March 2004	65,308
Terry Good, Chief of Police (9)	April 2003 – March 2004	64,476
Art Peasall, Maintenance Facility Supervisor	April 2003 – March 2004	34,167
Al Hayden, Director of Parks and Recreation	April 2003 – March 2004	54,679



Ronald Meyer, Superintendent of Public Works	April 2003 – March 2004	49,297
Ken Heinz, City Attorney (10)	April 2003 – March 2004	7,320
Mark Levitt, Municipal Judge	April 2003 – March 2004	9,600
Stephen J. Jianakoplos, Prosecuting Attorney	April 2003 – March 2004	9,600
Ronda Capriglione, Independent Contractor (11)	July 2003 and December 2003 – March 2004	5,766

- (1) Mayor Robert Salamone received extra compensation as Interim City Administrator from February through July 2004. The additional compensation received was \$20,200 and \$6,300 for the years ended March 31, 2005 and 2004, respectively. He also received compensation in the amount of \$937 for time spent in court hearings and depositions from February through May 2003. He resigned effective August 2004. Upon the Mayor's resignation announcement, Don Cary, Finance Administrative Services Director, was appointed acting city administrator effective July 2004. Don received no additional compensation for this appointment.
- (2) Mike Conran was appointed Mayor effective August 2004, and Edie Barnard was appointed to fill the alderman vacancy in September 2004. Mr. Conran did not run for re-election and was replaced by Julie Morgan, effective April 2005, and David Townsend was appointed to fill Ms. Morgan's alderman position in May 2005.
- (3) Joan Boyer was terminated effective February 2004.
- (4) Prior to being hired into the newly created position of Finance Administrative Services Director, Don Cary provided accounting services to the city as an independent contractor from May through August 2003. Don received compensation of \$8,591 for these services.
- (5) Tina Capriglione moved into the newly created Human Resources Specialist position in September 2003 upon the completion of the city's compensation and classification study. Prior to that, Tina was a temporary employee helping out the City Administrator until being hired full-time as an administrative assistant in July 2003. Tina was promoted to the newly created Human Resources Manager position effective April 2004.
- (6) Deanna Kaber was terminated in June 2004. At that same time Don Cary was also appointed interim city clerk. Don received no additional compensation for this appointment.
- (7) Prior to Penny Thomas's appointment as city clerk in July 2003, the city clerk position had been vacant.
- (8) John Kriska was promoted to Public Safety Administrator effective July 2004.
- (9) Terry Good resigned as Chief of Police effective May 2004. This position was eliminated with the creation of the Public Safety Administrator, who now supervises both the police and fire departments.
- (10) The compensation includes a \$610 monthly retainer for attending board meetings, providing general counsel, and secretarial services. In addition, the law firm of Curtis, Heinz, Garrett & O'Keefe provided other services which were billed per hour. The city paid approximately \$134,143 for these additional legal services.
- (11) Ronda Capriglione originally served as an office assistant. She then became the former Mayor's assistant in March 2004 and in fiscal year 2005 began providing services similar to that of an Assistant City Clerk and/or bookkeeper.

In addition to the officials identified above, the city employed 37 full-time employees and 8 part-time employees on March 31, 2004.

Assessed valuations and tax rates for the years ended March 31, 2005 and 2004 were as follows:

ASSESSED VALUATIONS	2003	2004
Real estate	\$ 42,435,510	42,478,080
Commercial	15,440,171	14,319,079
Personal property	11,797,140	11,399,550
Total	<u>\$ 69,672,821</u>	<u>68,196,709</u>

#### TAX RATES PER \$100 ASSESSED VALUATION

	Rate	
	2003	2004
General Fund (residential real)	\$ 0.3100	0.3150
(commercial real)	0.3060	0.3320
(personal)	0.3540	0.3540
Library (residential real)	0.3170	0.3210
(commercial real)	0.3130	0.3420
(personal)	0.3600	0.3600
Debt service	0.5110	0.3990

#### TAX RATES PER \$1 OF RETAIL SALES

	Rate
General	\$ 0.0100
Capital improvement	0.0050
Storm water control and local parks	0.0050
Fire department	0.0025